

OPEN MEETING
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MEMORANDUM



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Arizona Corporation Commission

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2003 DEC 30 P 1:53

TO: THE COMMISSION

FROM: Utilities Division

DEC 30 2003

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: December 30, 2003

DOCKETED BY

RE: IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR APPROVAL OF SPECIAL GAS PROCUREMENT AGREEMENT WITH TUCSON ELECTRIC POWER COMPANY (G-01551A-03-0910 AND E-01933A-03-0910)

On December 17, 2003, Southwest Gas Corporation ("Southwest") filed for Arizona Corporation Commission ("Commission") approval of a special gas procurement agreement ("SGPA") with Tucson Electric Power Company ("TEP").

Southwest has served TEP through SGPAs for a number of years, including through the most recent SGPA with TEP, which the Commission approved in Decision No. 63846 (June 28, 2001). The SGPA approved in Decision No. 63846, became effective June 1, 2001, and had an initial term of five years. This SGPA contained rates effective for the first two years of the contract and included procedures for the parties to renegotiate rates for the remaining term of the contract. Following the initial two year period, Southwest and TEP have extended the applicable period for the initial rates through December 31, 2003, through a series of letter agreements.

Once the initial two year period expired, Southwest and TEP extended the use of the initial rates through December 31, 2003, via a series of letter agreements. Unfortunately, these letter agreements were not submitted to the Commission or its Staff. However, Staff believes, through communications with Southwest, that such an oversight will not occur as Southwest pursues SGPAs in the future.

Southwest's filing in this application requests approval of the renegotiated rates contained in Exhibit A, which was provided to Staff pursuant to a confidentiality agreement. Apart from the renegotiated rates shown in Exhibit A, the terms and conditions of the SGPA remain unchanged. The letter agreement accompanying Exhibit A indicates that service under this SGPA is subject to possible service disruptions related to the recent reallocation of interstate pipeline capacity on the El Paso Natural Gas Company system and if a capacity shortfall develops, Southwest and TEP will work to develop alternative supply arrangements. The renegotiated rates would be effective for a one year period, beginning January 1, 2004. Staff has reviewed the proposed rates and believes that the revenues Southwest will receive should cover the cost of serving TEP and that the proposed rates are consistent with the SGPA approved in Decision No. 63846, subject to the conditions contained in that Decision. These conditions

THE COMMISSION

December 30, 2003

Page 2

include protection for Southwest's ratepayers from any potential negative margin resulting from this SGPA and the crediting of upstream pipeline capacity charges to Southwest's purchased gas adjustor bank balance. Staff recommends approval of the filing.

A handwritten signature in black ink, appearing to read 'EGJ', followed by a long horizontal line extending to the right.

Ernest G. Johnson

Director

Utilities Division

EGJ:RGG:rdp/LAV

ORIGINATOR: ROBERT GRAY

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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

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| IN THE MATTER OF THE APPLICATION OF SOUTHWEST GAS CORPORATION FOR APPROVAL OF A SPECIAL GAS PROCUREMENT AGREEMENT WITH TUCSON ELECTRIC POWER COMPANY | } | DOCKET NOS. G-01551A-03-0910 E-01933A-03-0910 |
| | } | DECISION NO. _____ |
| | } | <u>ORDER</u> |

Open Meeting
January 13 and 14, 2004
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On December 17, 2003, Southwest filed for Commission approval of a special gas procurement agreement ("SGPA") with Tucson Electric Power Company ("TEP").
3. Southwest has served TEP through SGPAs for a number of years, including through the most recent SGPA with TEP, which the Commission approved in Decision No. 63846 (June 28, 2001).
4. The SGPA approved in Decision No. 63846, became effective June 1, 2001, and had an initial term of five years.
5. This SGPA contained rates effective for the first two years of the contract and included procedures for the parties to renegotiate rates for the remaining term of the contract.

1 Once the initial two year period expired, Southwest and TEP extended the use of the initial rates
2 through December 31, 2003, via a series of letter agreements.

3 6. Southwest's filing requests approval of the renegotiated rates contained in Exhibit
4 A, which was provided to Staff pursuant to a confidentiality agreement. Apart from the
5 renegotiated rates shown in Exhibit A, the terms and conditions of the SGPA remain unchanged.

6 7. The letter agreement that accompanied Exhibit A in Southwest filing indicates that
7 service under this SGPA is subject to possible service disruptions related to the recent reallocation
8 of interstate pipeline capacity on the El Paso Natural Gas Company system and if a capacity
9 shortfall develops, Southwest and TEP will work to develop alternative supply arrangements.

10 8. The renegotiated rates will be effective for a one year period, beginning January 1,
11 2004.

12 9. Staff has reviewed the proposed rates and believes that the revenues Southwest will
13 receive should cover the cost of serving TEP and that the proposed rates are consistent with the
14 SGPA approved in Decision Number 63846, subject to the conditions contained in that Decision.

15 10. These conditions include protection for Southwest's ratepayers from any potential
16 negative margin resulting from this SGPA and the crediting of upstream pipeline capacity charges
17 to Southwest's purchased gas adjustor bank balance.

18 11. Staff has recommended approval of the filing.

19 CONCLUSIONS OF LAW

20 1. Southwest is an Arizona public service corporation within the meaning of Article
21 XV, Section 2, of the Arizona Constitution.

22 2. The Commission has jurisdiction over Southwest and over the subject matter of the
23 application.

24 3. The Commission, having reviewed the application and Staff's Memorandum dated
25 December 30, 2003, concludes that it is in the public interest to approve the filing.

26 ...

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28 ...

ORDER

IT IS THEREFORE ORDERED that this filing be and is hereby approved.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2004.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DISSENT: _____

EGJ:RGG:rdp/LAV

Decision No. _____

SERVICE LIST FOR: SOUTHWEST GAS CORPORATION AND TUCSON ELECTRIC
POWER COMPANY

DOCKET NOS. G-01551A-03-0910 AND E-01933A-03-0910

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